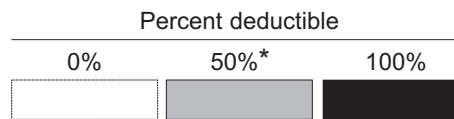


Travel & Entertainment Deductions

Travel expenses generally include transportation, meals, lodging, telephone, tips, laundry, and other ordinary and necessary expenses related to business travel. Meals are generally either a travel or entertainment expense, but are shown separately below because of the 50%* limit.



Travel

Travel expenses (other than meals) for overnight business trip.....		
Travel expenses (other than meals) for work assignment away from home:		
If the assignment qualifies as temporary.....		
If the assignment does not qualify as temporary.....		
Travel expenses (other than meals):		
Business seminar away from home overnight.....		
Investment seminar away from home overnight.....		

Meals

Meals with employee or business associate:		
Business discussed.....		
No business discussed.....		
Meals for business associate (taxpayer or representative not present).....		
Extravagant portion of meals.....		
Meals taken alone:		
Business trip or seminar away from home overnight.....		
Business trip or seminar not away from home overnight.....		
Away-from-home work assignment that qualifies as temporary.....		
Away-from-home work assignment that does not qualify as temporary.....		
Employee meals qualifying as de minimus.....		
Employee meals for a qualifying substantial noncompensatory business reason.....		

Entertainment

Entertainment of business associate:		
Business discussed.....		
No business discussed.....		
Tickets to qualifying charitable sports events.....		
Luxury skybox cost (for more than one "event") exceeding normal ticket cost.....		
Traditional employee recreation (such as office parties and picnics).....		
Business gifts up to \$25 per person per tax year.....		
Club dues and fees.....		
Expenses treated as compensation to employees.....		
Gift certificates not treated as compensation to employees.....		

*The rate for meals of interstate truck and bus drivers, certain air transportation employees (such as pilots, crew, dispatchers, mechanics, and control tower operators), and other employees subject to the federal Department of Transportation (DOT) hours of service limitations is 80% (not 50%).

What is Entertainment?

Entertainment includes any activity generally considered amusement, recreation, or sport, whether or not it might also be characterized as public relations or promotion.

Generally, entertainment includes entertaining guests at sporting events, restaurants, country clubs, night clubs, and festivals. It also includes hunting, fishing, vacation, and similar trips.

When is Entertainment Deductible?

To be deductible, entertainment expenses must be both ordinary and necessary. To qualify as ordinary, an expense must be common and accepted in your field of business. To qualify as necessary, an expense must be helpful and appropriate for your business.

You must be able to show that the entertainment meets at least one of the two following tests:

• Directly related test

- All of the following requirements apply. You must:
1. Have a business purpose as the main reason for the entertainment,
 2. Engage in business with your guest during the entertainment, and
 3. Have more than a general expectation of getting income or some other specific business benefit at some future time.

• Associated test

The entertainment must be associated with your business and directly precede or follow a substantial business discussion.

You must also have adequate records. See the other side of this guide for recordkeeping requirements.



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Written records required for

Travel & Entertainment

Documentary evidence (receipts, paid bills, or similar items that establish the amount, date, place, and essential character of an expense) is required for all away-from-home lodging, as well as for any travel or meal expense of \$75 or more (with the exception of transportation costs where documentary evidence is not readily available). In addition, written records (such as trip sheets, logs, or diaries prepared at or near the time of the expenditure) are required, showing the information detailed below.

Overnight Business Travel

Keep the following records for each overnight business trip:

1. Time and date of departure, date of return, and the number of days spent on business
2. Origin, destination, and (where appropriate) locality of travel
3. Business purpose of the trip
4. Documentary evidence (as noted above) of actual expenses, to the extent you do not use a per diem or the standard mileage rate to establish the deductible amount

Auto Expenses

Keep the following records for each business use of a vehicle:

1. Date
2. Origin and destination
3. Business purpose
4. Number of business miles

In addition to the number of business miles, keep a record of your odometer readings as of January 1 and December 31. If you use actual expenses (instead of the standard mileage rate), keep records and receipts verifying the amount, date, and nature of all vehicle expenses. In either case, business parking and tolls are also deductible - keep a record of the dates and amounts.

Business Entertainment

Keep the following records for each entertainment activity:

1. Amount and description of each separate expenditure
2. Date and place of the entertainment or meal
3. Business purpose, including a description of the business benefit expected and the nature of business discussions with the person or persons entertained
4. Business relationship to the person or persons entertained (name, title, occupation, or other designation sufficient to establish the business relationship)
5. Your presence (or the presence of your employee or representative) during the event

Business Gifts

Keep the following records for each business gift (limited to \$25 per recipient per year):

1. Cost and description of the gift
2. Date on which the gift was made
3. Business reason for the gift (or benefit expected)
4. Business relationship (name, title, occupation, or other designation sufficient to establish the business relationship)

Per Diems

IRS Per Diem Methods

• Regular per diems (based on gov't rates for federal employees)

The regular per diem method provides rates for lodging and for meals and incidental expenses in hundreds of key cities and other specified locations (available in IRS Publication 1542 or at www.gsa.gov). For locations without specifically assigned rates, \$70 is the standard rate for lodging and \$46 for meals and incidentals for travel in the continental U.S. from 10/1/09 through 9/30/10, or (by election) during calendar year 2010.

• High-low per diems

The high-low per diem method is available as an alternative to the regular method, but only when reimbursing employees for both lodging and meals. Certain cities and other specified localities qualify as high-cost locations (listed in IRS Publication 1542, available at www.irs.gov). The following rates apply for 10/1/09 through 9/30/10, or (by election) for calendar year 2010:

	High-cost locations	All other locations
Lodging, meals, and incidental expenses	\$258	\$163

The portions of these amounts that are subject to the 50% limit on meals are \$65 of the \$258 for high-cost locations, and \$52 of the \$163 for all other locations.

• Transportation industry per diems (meals and incidentals)

A special \$59 transportation industry per diem for meals and incidentals applies within the continental United States (\$65 elsewhere) for 10/1/09 through 9/30/10, or (by election) for calendar year 2010. Qualifying workers may also be eligible for an 80% deduction (instead of 50%). See reverse for details.

General Information about Per Diems

- If you use one of the per diem methods listed above to reimburse a particular worker, you are barred from using any of the other per diem methods for that worker during the year. You can, however, use actual cost at any time.
- You can use the "meal and incidental expenses only" per diem (standard meal allowance) of \$46 per day in a reimbursement situation **only** if one of the following applies: (1) you reimburse actual lodging costs, (2) you provide lodging in kind, (3) you pay the lodging directly, (4) you reasonably believe the worker will not incur lodging expenses, or (5) you base your calculation on a method similar to that used for wages (such as hours worked, miles traveled, or pieces produced).
- The optional per diem for "incidental expenses only" increased to \$5 per day for 10/1/09 through 9/30/10, or (by election) for calendar year 2010. Restrictions apply - contact us for details.
- If your per diem amount for meals and lodging is less than the IRS amount, you must treat 40% of the amount you pay for a full day of travel as meals for purposes of the 50% limitation.
- Per diems for lodging are not available for self-employed persons, or for reimbursing 10% or more related-party employees. Self-employed persons, employees, and employers who reimburse their employees can, if they wish, use a per diem (other than a high-low per diem) for meals and actual cost for lodging.
- You may use a per diem for a worker's lodging only if you use a per diem for that person's meals.

2009-2010 Travel & Entertainment Deductions Pocket Guide



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